

## Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 ARA-06 EUR-12 EA-07 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 COME-00 EPG-02 DODE-00

EB-07 FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-07 SP-02

SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01 FRB-03

XMB-02 OPIC-03 LAB-04 SIL-01 /149 W

-----241509Z 021819 /44

R 241310Z MAY 77

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8122

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 1 OF 2 KUWAIT 2869

E.O. 11652: N/A

TAGS: EFIN, ENRG, PFOR

SUBJECT: KUWAIT FINANCE MINISTER COMMENTS ON OIL PRO-

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DUCTION, INVESTMENT POLICY AND INFLATION

REF: (A) KUWAIT 2849 (NOTAL), (B) KUWAIT 2643 (NOTAL).

SUMMARY. FINANCE MINISTER ATEEQI FAVORS REDUCING KUWAIT'S

OIL PRODUCTION FROM PRESENT 2 MILLION B/D CEILING

TO 1.5 MILLION B/D. GIVEN COMMITMENTS FOR ASSOCIATED

GAS PRODUCTION BASED ON 2 MILLION B/D OIL PRODUCTION, THIS IS UNLIKELY. DESPITE ATEEQI REFERENCE TO LOWER KUWAITI OIL PRODUCTION DURING FIRST FOUR MONTHS OF 1977, PRODUCTION HAS IN FACT BEEN RUNNING AT SAME LEVEL AS 1976. APRIL 1977 PRODUCTION AVERAGED 2 MILLION B/D AND MAY LIKELY TO BE AT ABOUT SAME LEVEL. END SUMMARY.

1. KUWAIT PRESS MAY 22 AND 23 GIVES EXTENSIVE COVERAGE TO TWO WIDE RANGING INTERVIEWS BY FINANCE MINISTER ATEEQI. ONE FOCUSED PRIMARILY ON INFLATION, THE OTHER ON OIL PRODUCTION AND INVESTMENT POLICY. LATTER REPORTEDLY WILL APPEAR IN MAY 22 MIDEAST ECONOMIC SURVEY, NOT YET RECEIVED. HIGHLIGHTS OF TWO INTERVIEWS FOLLOW.

2. OIL PRODUCTION. MINISTER REPORTED AS WELCOMING ALLEGED DROP IN KUWAITI OIL PRODUCTION DURING FIRST FOUR MONTHS OF '77 (SEE COMMENT BELOW). HE FAVORS DROPPING KUWAIT'S PRESENT 2 MILLION B/D PRODUCTION CEILING TO 1.5 MILLION B/D. "IT'S A GOOD MORAL RELIEF FOR US IN THE FUTURE THAT WE DON'T HAVE TO PRODUCE MORE THAN WE CONSIDER APPROPRIATE FOR OUR OWN INTERESTS. NOT ONLY IS THIS LOWER LEVEL OF PRODUCTION SATISFACTORY IN ITSELF, IT ALSO HELPS ME, AS MINISTER OF FINANCE, TO AVOID SEARCHING FOR PLACES TO INVEST THE VALUE OF MY DEPLETING RESERVES--PLACES IN WHICH, INCIDENTALLY, I AM BEING LOOKED AT WITH SUSPICION."

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3. INVESTMENT POLICY. ASKED TO COMMENT ON THAT STATEMENT, MINISTER SAID, "WELL, YOU KNOW ABOUT THE REGULATIONS IN THE UNITED STATES FOR COMPULSORY DISCLOSURE OF INVESTMENTS EXCEEDING 5 PER CENT IN ANY COMPANY, AND IT SEEMS THIS MAY BE LOWERED TO 2 PER CENT. THEN THERE IS THE NEW LEGISLATION IN BRITAIN ON COMPULSORY DISCLOSURE AND THIS COULD SPREAD ELSEWHERE IN EUROPE. I DON'T MIND INVESTING IN THE WEST BUT I DON'T WANT TO BE LOOKED ON WITH SUSPICION AND DISTRUST. IF THERE IS NO WELCOME AND SPECIAL TREATMENT FOR A BIG, WELL-INTENTIONED INVESTOR, THEN THE WHOLE RELATIONSHIP IS NO GOOD. THE MORE I CUT DOWN THE BETTER IT IS FOR ME."

4. INVESTMENT IN ARAB WORLD. ATEEQI ADMITTED THAT DESPITE THE OIL PRICE RISE SINCE 1973 AND THE CONSEQUENT GROWTH IN KUWAIT'S REVENUES, "OUR INVESTMENTS IN ARAB COUNTRIES HAVE ACTUALLY DECLINED SINCE THEN AS THERE HAS BEEN NO IDENTICAL ECONOMIC GROWTH

IN ARAB COUNTRIES TO ACCOMMODATE THE ADDITIONAL INVESTMENTS."

HE ALSO CONFIRMED THAT THERE WERE "HURDLES" IN THE WAY OF KUWAITI INVESTMENTS IN EGYPT AS WELL AS SOME OTHER ARAB COUNTRIES BUT CLAIMED THAT ATTEMPTS ARE BEING MADE TO OVERCOME THEM. OBSTACLES DESCRIBED AS DIFFERENT ECONOMIC SYSTEMS AND INVESTMENT LAWS, IN ADDITION TO TECHNICAL AND ADMINISTRATIVE INADEQUACIES.

5. TAXATION. ATEEQI ESTIMATED 1.5 MILLION B/D PRODUCTION WOULD GENERATE REVENUE OF \$7 BILLION AT PRESENT PRICES. IF SUCH INCOME NOT SUFFICIENT, ATEEQI SAID, GOVERNMENT COULD THEN EITHER INTRODUCE TAXATION OR CUT EXPENDITURE.

6. INTERDEPENDENCE. US ATTEMPT TO REDUCE DEPENDENCE ON ARAB OIL IS WORRYING, ATEEQI SAID, BECAUSE LIMITED OFFICIAL USE

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IT COULD FORCE ARABS INTO A POSITION WHERE THEY WOULD HAVE TO REDUCE THEIR DEPENDENCE ON GOODS AND TECHNOLOGY FROM THE WEST AND US. SUCH INDEPENDENCE

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ACTION NEA-10

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SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01 FRB-03

XMB-02 OPIC-03 LAB-04 SIL-01 /149 W

-----241507Z 022260 /44

R 241310Z MAY 77

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8123

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

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IS WRONG, ATEEQI CONTINUED, SINCE ARABS AND WEST SHOULD  
"WORK ON A NEW POLICY OF INTERDEPENDENCE". "I PRODUCE  
OIL. OTHERS PRODUCE FOOD. STILL OTHERS MAKE  
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MANUFACTURED GOODS. THEN WE EXCHANGE THE BENEFITS.  
IF, NOW, EVERYONE IS SUPPOSED TO OPT FOR INDEPENDENCE  
THEN THE WHOLE INTERNATIONAL SYSTEM COULD COLLAPSE.  
SUPPOSE THE ARABS MAKE AN AGREEMENT AMONG THEMSELVES  
FOR REDUCING DEPENDENCE ON THE WEST. WHAT WOULD  
THIS DO TO THE BALANCES OF PAYMENTS?

WHAT WE NEED IS A WORLDWIDE AGREEMENT TO BALANCE  
ECONOMIC BENEFITS. THOSE WHO PUSH THE PHILOSOPHY OF  
INDEPENDENCE ARE TRYING TO TEACH US SOMETHING WHICH  
IS AGAINST THE INTERESTS OF THE WHOLE WORLD. FRANKLY,  
IT MAKES ME SICK. I ASK MYSELF DO THESE ADVISERS REALLY  
KNOW WHAT THEY ARE DOING?"

7. INFLATION. ATEEQI SAID THAT INFLATION--MOSTLY  
IMPORTED--WAS RUNNING AT AROUND 15 PERCENT IN KUWAIT,  
BUT THIS HAD NOW DROPPED. HE ADMITTED PORT CONGES-  
TION AND BOTTLENECKS WERE INTERNAL FACTORS CAUSING  
INFLATION BUT THAT WORLD INFLATION WAS ALSO TO BLAME.

8. COMMENTING ON ATEEQI INTERVIEWS TO E/C CHIEF MAY 23,  
OIL MINISTRY SOURCE SAID THAT ATEEQI WAS PUSHING LOWER  
PRODUCTION FIGURE AND REFERRING TO ALLEGED LOWER PRODUCTION  
AS A MEANS OF PROMOTING LONG HELD FINANCE MINISTRY VIEW  
THAT GOVERNMENT EXPENDITURES AND LARGE PROFITS SHOULD  
BE CURBED. FACT OF MATTER, OIL MINISTRY SOURCE SAID,  
IS THAT APRIL PRODUCTION AMOUNTED TO 2,002,563 B/D,

ABOUT SAME RATE AS OIL PRODUCTION LAST YEAR AND MAY PRODUCTION IS LIKELY TO BE AT ABOUT THE SAME RATE. (FOR THE RECORD, PRODUCTION BREAKDOWN FOR APRIL IS AS FOLLOWS: KUWAIT OIL COMPANY 1,786,576 B/D; AMINOIL 90,096 B/D; ARABIAN OIL COMPANY 125,891 B/D.)

9. COMMENT: FORMERLY IN CHARGE OF OIL, AS WELL AS FINANCE, ATEEQI LIKES TO MAKE FORAYS INTO WHAT IS NOW OIL MINISTER KAZIMI'S PRESERVE. HIS COMMENTS ABOUT OIL PRO-LIMITED OFFICIAL USE

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DUCTION STRIKE US AS PRIMARILY TACTICS IN HIS CONTINUING EFFORT TO CURB EXPENDITURES. WE DOUBT THAT KUWAIT, WHICH IS NEGO EUVING LONG TERM GAS SUPPLY CONTRACTS PRESUMING 2 MILLION B/D OIL PRODUCTION, WILL VOLUNTARILY CUT CRUDE OUTPUT TO 1.5 MILLION B/D. ATEEQI'S CONCERN ABOUT INFLATION MIRRORS THAT RECENTLY EXPRESSED BY AMIR.(REF. B)

10. ACTION REQUESTED: (1) EMBASSY WOULD APPRECIATE RECEIVING LATEST STUDIES DONE ON WORLD INFLATION (REF B). (2) PLEASE PROVIDE STATUS REPORT ON ALLEGED LEGISLATIVE EFFORTS TO REQUIRE COMPULSORY DISCLOSURE OF INVESTMENTS EXCEEDING 2 PERCENT IN A GIVEN COMPANY. SUTHERLAND

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## Message Attributes

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**Original Previous Classification:** n/a  
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